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C O N F I D E N T I A L SECTION 01 OF 04 KYIV 000427

SIPDIS

DEPT FOR EUR/UMB
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NSC FOR KKVIEIN,
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TAGS: [ENRG](#) [EINV](#) [EPET](#) [PINR](#) [PREL](#) [RS](#) [UP](#)

SUBJECT: UKRAINE: FIRTASH RETURNS TO SET THE RECORD STRAIGHT

REF: A. 08 KYIV 2414

[B](#). KYIV 419

[C](#). KYIV 204

Classified By: Ambassador William Taylor for reasons 1.4 b) and d)

[1](#). (C) Summary. Ukrainian oligarch and RosUkrEnergo (RUE) co-owner Dmytro Firtash asked again to see the Ambassador on March 3 to discuss the conclusion of the recent gas crisis, the state of RUE following the crisis, and his views on the political landscape ahead of the January 2010 presidential election. He claimed that he was actively involved in discussions with both sides as the gas crisis unfolded, and was even asked by Gazprom to weigh in with the Ukrainian side. Firtash did not moderate his criticism of Prime Minister Yulia Tymoshenko and the deal she reached with Russian Prime Minister Vladimir Putin in January to resume gas flows to Ukraine. He also continued to hedge his political bets as he showed interest in former Rada speaker Arseniy Yatseniuk's chances in the 2010 election. Firtash did not state what RUE would do without its role as an intermediary in the Ukrainian market but he also did not back away from defending RUE's position in Ukraine. End summary.

Firtash,s View of the Gas Talks

[2](#). (C) Firtash began by describing the breakdown of negotiations between Russian and Ukraine on December 31, 2008 and the resulting gas crisis as banally simple*that Gazprom needed money because revenues from exports had dropped together with the price of oil and looked to Ukraine to make up the shortfall. The Ambassador noted that something stopped Prime Minister Tymoshenko from going to Moscow to conclude the negotiations when Gazprom's Director Alexei Miller offered a price of \$250/thousand cubic meters (tcm). Firtash denied that President Victor Yushchenko stopped Tymoshenko from concluding the deal with Russia and stated that Yushchenko did not interfere in the process.

[3](#). (C) He blamed the breakdown of the negotiations on Yushchenko's and Tymoshenko's own internal problems. Firtash noted that Naftohaz Chairman Oleg Dubina had proposed a price of \$230/tcm for gas with transit fees rising to \$1.90/tcm and that Russia refused those terms. Firtash laughed at the rumor that he had offered Gazprom a price of \$280/tcm and asked how it would have been physically possible for him to offer any price to Gazprom's Miller and Deputy Director Alexander Medvedev.

[4](#). (C) Firtash said that beginning on December 31, 2008

around 5:00 pm and continuing until 1:00 am, Miller called him to ask for his intervention in the negotiations. Firtash said he told Miller that he could not, as he did not have the influence needed within the government to secure Ukraine's agreement. He noted that Yushchenko called him at 11:00 pm that night and asked for his advice. He also said that at one point Gazprom offered to sell gas directly to RUE for the Ukrainian market at \$250/tcm plus a ten percent discount and a summer discount with a final price of \$220/tcm plus \$1.90/tcm for transit. Firtash said that he called the President to discuss the offer, but Yushchenko told him to stay out of the negotiations. Firtash told Miller that he did not have the authority to enter into such a contract, that he would not have someone to sell the gas to, and that he could not be involved in the talks. Firtash said that he continued to receive calls from both sides over the next days and that he advised Gazprom that it would be a mistake to shut off the gas to Ukraine.

15. (C) Firtash at first rejected the idea that Putin's decision to cut off gas supplies was emotional. He emphasized that while Putin's character is such that he is ready to fight, he did not start the gas war, rather Gazprom did and Putin understood that Ukraine could gain from an extended conflict (Ref C).

Firtash: Ukraine Should Have Waited Them Out

16. (C) Firtash repeatedly said that Ukraine made a strategic error by returning to the negotiating table. Instead, Ukraine should have waited Russia out. Firtash said that

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Russia would have suffered politically and commercially, and ultimately lost the battle, if the gas cutoff had continued. Politically, Russia would have lost the PR war as it became clear that Ukraine was not stealing gas (because Ukraine was not, according to Firtash), that no gas was passing from Russia into Ukraine, and that Russia, not Ukraine, was obliged to provide gas to Europe. Commercially, Russia would have lost because Gazprom and Russia would lose needed revenue*\$6 billion per month*and that Gazprom, in its heavily indebted state, could not maintain such losses for any extended period of time. He noted that Ukraine's large underground gas storage was nearly full when Russia cut off gas supplies. However, Russia remained obliged to purchase gas from Central Asia, and in fact its own reserves were filling up as it was not exporting gas to Ukraine or the rest of Europe. Firtash also said that Ukraine could have turned off industrial production and turned to other energy sources*coal or heavy oil*for its heating needs to wait out Russia until May, if needed.

17. (C) If Ukraine had been more patient, Russia would have gladly accepted terms put forth by Ukraine by the end of February or middle of March. Firtash repeatedly said that he had advised President Yushchenko to wait out the Russians during the crisis. He said that he had told Yushchenko that Yushchenko could either accept the Russian's current offer or maintain a principled and patient policy. Yushchenko then asked Firtash "how long can Ukraine be patient? How long can Russia be patient?"

A Criminal Agreement that will Bankrupt Ukraine

18. (C) Firtash described the agreement ultimately signed by Tymoshenko as criminal and the "most stupid contract" in Ukraine's history. He said that it created many problems for Ukraine and that it would, in the end, bankrupt the country. He noted that Naftohaz was having difficulty collecting money and was surviving only because of its gas in storage and by stealing Firtash's gas.

19. (C) Firtash noted that industry in Ukraine was already

feeling the consequences of the higher gas price. He provided an example from the chemicals sector and noted that Ukraine has lost its export market share as Russia can now export chemical products more cheaply than Ukraine. Ukrainian industries are even importing inputs, such as ammonia, from Russia rather than producing them, according to Firtash.

¶10. (C) Gazprom did everything right, Firtash concluded. It got a higher price out of Ukraine*higher even than the European price, Firtash argued, if the European price is calculated correctly*and transit fees did not increase.

On RUE*Past, Present, Future

¶11. (C) Firtash noted that while the exclusion of RUE from the gas contract had been touted as a major accomplishment by Tymoshenko, Yushchenko and Putin had agreed in February 2008 that RUE would no longer supply gas to Ukraine as of 2009. Firtash said that Tymoshenko's message on the gas contract focused on the removal of RUE because she was trying to gloss over the rest of the agreement.

¶12. (C) Firtash did not appear overly concerned about his loss of the Ukrainian market. He said that RUE's work in Ukraine had never been profitable. Without being specific, he claimed that RUE had always subsidized Ukraine. Firtash said that RUE had been thinking about how it could get out of Ukraine as falling European gas prices no longer compensated for the losses RUE incurred in Ukraine.

¶13. (C) Firtash was, however, visibly upset at Gazprom's intention to hand over to Naftohaz 11 bcm of RUE gas now in Ukrainian storage in return for Naftohaz's willingness to assume a \$1.7 billion RUE debt to Gazprom. Tymoshenko was attempting to "steal" RUE's gas, he said. Firtash explained that Gazprom had no right to transfer unilaterally its \$1.7 billion debt from Gazprom to Naftohaz without RUE's agreement nor did Naftohaz have rights to 11.5 billion cubic meters (bcm) of gas RUE has in underground storage in

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Ukraine. Firtash said that RUE would dispute this transaction in the Stockholm arbitration court on March 14 and noted that it has already filed nine complaints in Ukrainian courts.

¶14. (C) Firtash alleged that Tymoshenko is also stealing RUE's gas, as he predicted would happen when he saw the Ambassador in December 2008 (Ref A). The gas he said Tymoshenko was stealing needed to clear customs before being released to the Ukrainian domestic market, since RUE had originally imported the gas to Ukraine for eventual onward shipment to other European countries. On February 27 six bcm of RUE gas cleared customs, he said. Firtash explained that the former head of the Customs Service Valeriy Khoroshkovsky was fired on January 28 because he refused to clear the gas through customs without the appropriate documentation. Khoroshkovsky was replaced by Anatoliy Makarenko, who Firtash claimed Tymoshenko installed because he agreed to clear the RUE gas through customs. (Note: Khoroshkovsky has been named First Deputy Head of the National Security Service (SBU) following his dismissal from Customs and is owner of the Inter Media Group, with which Firtash is also connected, see below. End note.) Firtash also alleged that the head accountant at Naftohaz refused to sign the customs clearance forms. Tymoshenko then found someone else to sign the forms. Firtash alleged that this scheme was thought up by Viktor Medvedchuk and Deputy Tymoshenko Bloc (BYuT) faction leader Andriy Portnov, who, he said, did not understand international law. Firtash stated that he has provided customs declarations to prove his ownership of the gas, and that he would file complaints against Naftohaz and the government to dispute the transaction. (Note: On March 4 masked forces from the SBU stormed Naftohaz headquarters to

seize documents related to the dispute of the customs clearance of this gas. MPs from the BYuT went to Naftohaz to monitor the situation. (Ref B) End note.)

¶15. (C) Firtash also said that Gazprom had offered to buy out the remainder of its export contracts with RUE if Firtash would sign the debt transfer agreement. As part of this agreement, Gazprom would surrender its 50 percent equity stake in RUE. Firtash did not comment whether he would accept Gazprom's offer.

On Yulia Tymoshenko

¶16. (C) Firtash's dislike for Prime Minister Tymoshenko was visible. He characterized the January agreement as the second time Tymoshenko worked for the Russians (the first being in 2005). He said that the Russians used Tymoshenko to pull them out of the corner they had backed themselves into when Putin impulsively ordered Gazprom to shut off the gas. The negotiations moved out of the Miller-Dubina channel to the Putin-Tymoshenko one. He argued that the eight-hour talks on January 18 between Tymoshenko, Putin, Viktor Medvedchuk, and the FSB then centered not on the price of gas between Russia and Ukraine but rather Tymoshenko's criminal past. He said that the Russians spoke to her not as the prime minister of Ukraine but rather as their agent. He described Tymoshenko's appearance at the press conference announcing the agreement as that of a corpse, as if she had found herself in a situation in which she did not know how to react.

¶17. (C) Firtash said that Tymoshenko and the Russian side were concerned that President Yushchenko would annul the contract and arrest Tymoshenko when she returned to Kyiv. He said he would have supported Tymoshenko's arrest because, in his view, signing the agreement was paramount to treason. If anyone else had signed such an agreement, "he would have already been hanging from the street lights." Once Tymoshenko realized that Yushchenko would not go after her, she returned to attacking the president.

Firtash,s Political Forecast

¶18. (C) Firtash does not see the possibility of a broad coalition developing before the presidential elections now slated for January 2010. He noted that Party of Regions' head Victor Yanukovich is polling better than Tymoshenko and therefore is not motivated to seek out a coalition with her.

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He said Yanukovich was in a good position as he "watches the corpses of his opponents float by," and he predicted that Yanukovich would make it to the final round of the elections, but he questioned whether Yanukovich would actually win. He argued that Tymoshenko had already maximized her support after using Yushchenko to establish herself as a first rate politician. Tymoshenko's two major mistakes were linking herself to Russia and her handling of the economic situation.

¶19. (C) Firtash said he saw former Rada speaker Arseniy Yatseniuk as Tymoshenko's rising competition and predicted that Yatseniuk would face*and defeat*Yanukovich in the final round. Firtash described Yatseniuk as having a more moderate and wiser approach on the issue of Ukrainian nationalism than Yushchenko. Yatseniuk, he said, can attract both Tymoshenko voters and voters in the regions, while Renat Akhmetov and even Yanukovich might support him early on in order to defeat Tymoshenko.

Inter*Firtash's Entry into TV

¶20. (C) Firtash also commented on media reports of the

ownership dispute surrounding television channel Inter. Firtash explained that former customs chief, now SBU first deputy head Valeriy Khoroshkovsky currently owns 100 percent of the channel. However, Firtash said he has an option to buy 50 percent of the channel from January 1, 2010 onwards. Firtash said that he planned to exercise the option, but will stay out of the daily management of the channel for now.

¶21. (C) Firtash also commented on the allegations from Konstantin Grygoryshyn that he, and not Khoroshkovsky, is the rightful owner of Inter. Firtash said that Tymoshenko was backing Grygoryshyn in his claim against Khoroshkovsky. Grygoryshyn has filed a court case against Khoroshkovsky. The court had blocked all transactions of shares of Inter while it examines the claim. Firtash said Grygoryshyn had never paid for any shares of Inter.

¶22. (C) Comment. As in the previous meeting with the Ambassador, AmCit political consultant Zev Furst accompanied Firtash, as did Andraf Knopp. Neither Firtash nor Furst passed on any requests to the Ambassador, and it now is apparent that Firtash hoped to use the meeting to set the record straight (in his view) and rebrand himself in the eyes of the USG. While some of his claims are clearly false (RUE is certainly not a loss-making venture, but a cash cow and a serious source of corruption and political patronage), his insights into the Russia/Ukraine gas crisis are noteworthy. Although no friend of PM Tymoshenko, he echoed her claims that 1) Russia caused the crisis, and that 2) Ukraine had not stolen any Russian gas. His sanguine views of the future of RUE were probably genuine, since his far-flung business empire appears strong enough to survive the current economic crisis and provide him with sufficient sources of income to fund his political machinations. His upbeat views on Yatsenyuk's presidential chances are probably an indication that Firtash is prepared to support the young politician, both politically and financially. In any case we can expect that Firtash will remain a visible and aggressive player on Ukraine's political scene even if RUE does ultimately disappear from Ukraine's gas market. End comment.
TAYLOR